

POLICY FOR APPOINTMENT/REAPPOINTMENT/REMOVAL OF STATUTORY AUDITOR

BACKGROUND:

Provisions contained in section 30(1A) of Banking Regulation Act 1949 have since been made applicable to all cooperative banks vide clause (J) of Banking Regulation (Amendment) Act, 2020. Accordingly, all Urban Cooperative Banks are now statutorily required to obtain prior approval of RBI for appointment /reappointment/ removal of any statutory auditors. Reserve Bank of India has therefore, vide their Circular.No: DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 issued detailed guidelines to all regulated entities for the same.

RBI has also advised Banks vide paragraph 10 of the above circular to formulate Board approved Policy to be posted on Bank's website and also formulate necessary procedure for appointment/ reappointment/removal of statutory auditors.

Based on the RBI guidelines, this policy for Appointment/Reappointment/Removal of Statutory Auditor/s is formulated as under:

PREAMBLE

This policy shall be known as "Policy on Appointment/Reappointment/Removal of Statutory Auditor". The Policy is aimed at conforming all relevant Statutory/Regulatory requirements and to afford necessary transparency and objectivity for most key aspects of Audit Function.

OBJECTIVE OF THE POLICY

The objective of this policy is to provide guidance on Appointment/Reappointment/Removal of Statutory Auditors of the Bank by laying down eligibility criteria of selection of Statutory Auditor Firm and prescribing procedure to be followed for their selection/removal in line with the guidelines issued by the RBI.

THE SALIENT FEATURES OF THE POLICY ARE AS UNDER

1. SCOPE OF THE POLICY

This policy is applicable for Appointment/Reappointment/Removal of Statutory Auditor of the Bank. The Policy shall be applicable for the Financial Year 2021-22 and onwards in terms of Reserve Bank of India directives issued/may be issued from time to time in this regard.

2. REGULATORY REFERENCE

Section 30(1A) and section 56 of Banking Regulation Act, 1949 read with RBI Circular No: Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.

3. ELIGIBILITY CRITERIA

Our Bank's assets size is less than ₹1000/- crore as on March 2021. As per RBI guidelines, following Eligibility Criteria are fixed for appointment of Statutory Auditors in our bank.

Basic Eligibility

Asset Size of Entity as on 31st March of Previous Year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years	Minimum No. of years of Audit Experience of the firm Note 3	Minimum No. of Professional staff Note 4
Upto ₹1,000 crore	2	1	6	8

Note 1 : There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full time partners.

(d) Board/ACB/LMC shall examine and ensure that the income of the partner from the firm/LLP is adequate for considering them as full-time exclusively associated partners, which will ensure the capability of the firm for the purpose

Note 2: CISA/ ISA Qualification

Although there is no minimum requirement of CISA/ISA qualification for UCBs with asset size upto Rs.1000.00 Cr . Bank while appointing statutory auditors Bank will give preference to firm with full time partners or full time CAs having CISA /ISA qualification. There should be at least one year continuous association of paid CAs with CISA/. ISA qualification with the firm as on the date of empanelment .

Note 3: Audit Experience:

For our bank audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be effected immediately for this purpose.

Note 4: Professional Staff

Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/ secretaries/subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of empanelment shortlisting for considering them as professional staff for the purpose.

Additional Consideration

- (i) The audit firm, proposed to be appointed as Statutory Auditor, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013. 9
- (ii) The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
- (iii) The bank shall ensure that appointment of Statutory auditor is in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.
- (iv) If any partner of a Chartered Accountant firm is a director in the bank, the said firm shall not be appointed as a statutory Auditor of our Bank.
- (v) For audit of our bank, the statutory Auditor of the firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the language of the state in which the bank is located.

4 Continued Compliance with basic eligibility criteria

Any audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc.), should promptly approach the bank with full details. The audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.

In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees, etc., which makes the firm ineligible with respect to any of the eligibility norms, Bank will refer the matter to RBI for continuation of Audit by the concerned audit firm.

5 UNDERTAKING/DECLARATION/CERTIFICATE TO BE SUBMITTED BY THE AUDIT FIRM

Audit firm desired to be appointed as Statutory Auditors of the bank, has to provide the Certificate as per Form – B of this policy including Undertaking and declaration stated therein.

- i) An undertaking from the firm to the effect that the Audit will be carried by their own staff and they will not subcontract the Audit Work.
- ii) An undertaking from the audit firm that there are no adverse remarks/ disciplinary proceedings pending/ initiated against the firm/any of its partners/proprietor on the records of ICAI, which would make them ineligible for appointment as auditors.

6. TENURE

The audit firm shall be appointed for continuous period of 3 years subject to firm satisfying eligibility criteria each year. An audit firm would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure i.e. continuation period of three years.

7. REMOVAL / DISCONTINUATION

Bank may remove an audit firm before expiry of the tenure with prior permission of RBI.

8. AUDIT FEES AND EXPENSES

The Audit Fees for SAs of all the entities shall be decided in terms of the relevant statutory /regulatory provisions.

The Audit Fees for SAs shall be reasonable and commensurate with the scope and coverage of audit , size and spread of assets , accounting and administrative units , complexity of transactions ,level of computerization , identified risks in financial reporting, etc.

9. RELINQUISH THE INTERNAL ASSIGNMENT IF ANY

- i) Statutory auditors shall not be given any other assignment during the tenure of SA of the bank.
- ii) At the time of acceptance of appointment as SA of our Bank, the firm(s) must relinquish any internal assignment allotted to them in our Bank.
- iii) Associate firms or sister concerns of statutory audit firm of the bank are disqualified for internal audit or for any special assignment in a particular year.

10. GENERAL GUIDELINES APPLICABLE TO STATUTORY AUDITOR FIRM.

- i) SA shall visit and audit at least the top 20 branches/top 20% of the branches of the Bank, to be selected in order of the level of outstanding advances in such a manner as to cover a minimum of 15% of total gross advance of the Bank.
- ii) The firms whose partner/s is/are on the Board of the Bank will not be eligible for appointment as SA.
- iii) Guidelines issued by RBI from time to time shall apply accordingly in true spirit.
- iv) Concurrent Auditors of the bank will not be appointed as Statutory Auditors
- v) One Audit firm can concurrently take the statutory audit of a maximum number of banks as prescribed by RBI in their circular under reference or within the overall ceiling prescribed by any other statutes or rules.

CHIEF EXECUTIVE OFFICER